

ORIGINAL



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MEMORANDUM

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TO: Docket Control  
FROM: Ernest G. Johnson  
Director  
Utilities Division

DATE: February 16, 2007

RE: STAFF REPORT FOR THE SALT RIVER PROJECT AGRICULTURAL  
IMPROVEMENT AND POWER DISTRICT APPLICATION FOR AN ORDER  
AUTHORIZING ITS ISSUANCE OF REVENUE BONDS AND REFUNDING  
REVENUE BONDS. (DOCKET NO. E-02217A-06-0489)

Attached is the Staff Report for the Salt River Project Agricultural Improvement and Power District application for authority to issue revenue bonds and refunding revenue bonds. Staff recommends approval of the requested authorization.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before March 2, 2007.

EGJ:PMC:tdp

Originator: Pedro M. Chaves

Arizona Corporation Commission  
DOCKETED  
FEB 16 2007

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SERVICE LIST FOR: Salt River Project Agricultural Improvement and Power District  
DOCKET NO. E-02217A-06-0489

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**STAFF REPORT  
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ARIZONA CORPORATION COMMISSION**

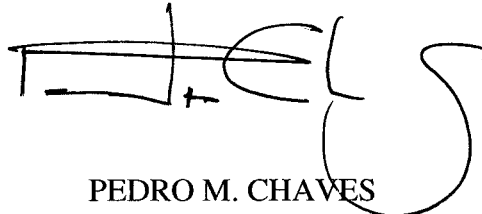
**SALT RIVER PROJECT AGRICULTURAL  
IMPROVEMENT AND POWER DISTRICT  
DOCKET NO. E-02217A-06-0489**

**APPLICATION FOR AUTHORITY  
TO ISSUE REVENUE BONDS AND  
REFUNDING REVENUE BONDS**

**FEBRUARY 15, 2007**

## STAFF ACKNOWLEDGMENT

The Staff Report for Salt River Project Agricultural Improvement and Power District, Docket No. E-02217A-06-0489 was the responsibility of the Staff members listed below: Pedro M. Chaves was responsible for the review and financial analysis of the Company's application. Prem Bahl was responsible for the engineering and technical analysis.

A stylized handwritten signature in black ink, consisting of a horizontal line with a vertical stroke intersecting it, followed by a large, sweeping 'S' shape.

PEDRO M. CHAVES  
PUBLIC UTILITIES ANALYST II

A handwritten signature in black ink, written in a cursive style, reading 'Prem Bahl'.

PREM BAHL  
UTILITIES ENGINEER

**EXECUTIVE SUMMARY**  
**SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT & POWER DISTRICT**  
**DOCKET NO. E-02217A-06-0489**

Salt River Project Agricultural Improvement and Power District ("SRP" or "Applicant"), a political subdivision of the State of Arizona located in Tempe, Arizona, filed an application for authority to issue revenue bonds and refunding revenue bonds on July 28, 2006 ("Application").

The Applicant requests that the Arizona Corporation Commission ("Commission") authorize it to issue \$1.2 billion in revenue bonds and \$1.3 billion in refunding revenue bonds. SRP plans to use the proceeds from the revenue bonds to partly fund its capital expenditure needs for its fiscal years 2007-2012. The purpose of SRP's request for authorization to issue refunding revenue bonds is to facilitate its ability to expeditiously respond to future opportunities presented by capital market conditions to save debt service costs by repaying existing callable revenue bonds with the proceeds of the refunding revenue bonds. Thus, the refunding revenue bonds would not result in additional outstanding debt.

SRP's capital structure on April 30, 2006 consisted of 2.1 percent short-term debt, 46.9 percent long-term debt, and 50.9 percent equity. Subsequently, SRP increased its leverage by issuing \$296 million in revenue bonds in July 2006. Issuance of the proposed \$1.2 billion debt under current market conditions and recognition of the revenue bonds issued in July 2006 results in a pro forma capital structure composed of 2.1 percent short-term debt, 57.1 percent long-term debt and 40.8 percent equity.

Staff calculated a 3.04 times interest earned ratio ("TIER") and 1.74 debt service coverage ratio ("DSC") for the Applicant for the fiscal year ended in 2006. Issuance of \$1.2 billion in revenue bonds under current market conditions (assuming a 25-year amortizing loan at 4.35 percent) results in a pro forma 1.99 TIER and 1.40 DSC. The pro forma DSC results indicate that operating cash flow would be sufficient to cover all obligations.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the Application is within SRP's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends that the Commission authorize SRP's request to issue an amount not to exceed \$1.2 billion in revenue bonds and \$1.3 billion in refunding revenue bonds for the purposes described in the Application.

Staff further recommends that any unused revenue bond issuance authorization expire on December 31, 2014.

Staff further recommends that the Applicant file with Docket Control, as a compliance item in this docket, within 60 days of the execution of any financing transaction authorized herein; a copy of all notes and other documents memorializing the transaction and a written summary providing an overview of the transaction that includes, but is not limited to, the

business rationale for the transaction, the terms and conditions of the transaction, and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time.

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## **Introduction**

On July 28, 2006, Salt River Project Agricultural Improvement and Power District ("SRP" or "Applicant") filed an application with the Arizona Corporation Commission ("Commission") requesting authority to issue \$1.2 billion in revenue bonds and \$1.3 billion in refunding revenue bonds.

## **Public Notice**

On September 14, 2006, the Applicant filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *Arizona Republic* on September 8, 2006. The *Arizona Republic* is a daily newspaper of general circulation in the State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

## **Background**

SRP is a political subdivision of the State of Arizona organized in 1937. SRP is mainly engaged in the purchase and sale of electricity in the Maricopa, Pinal and Gila Counties, and the generation of electricity in the States of Arizona, New Mexico, Nevada and Colorado, primarily for sale in Arizona. As of April 30, 2006, SRP served approximately 892,000 customers of which over 809,000 were residential customers. SRP's principal business office is located at 1521 North Project Drive, Tempe, Arizona.

SRP is regulated by an independent, publicly-elected board of directors which approves its capital budgets and electric price structure.<sup>1</sup> SRP is not subject to Commission regulation with the exception of line siting and the issuance of revenue bonds.<sup>2</sup>

## **Revenue Bonds**

SRP requests authorization to issue \$1.2 billion in revenue bonds. The proposed revenue bonds would be secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses.

The Applicant plans to use the proceeds from the revenue bonds to partly fund capital expenditure requirements for its fiscal years 2007-2012.

SRP plans to sell the revenue bonds in several series subsequent to the date of Commission approval. Maturity dates for the revenue bonds cannot exceed fifty years.<sup>3</sup> The amount, maturity and interest rate of each series depends upon construction needs, capital market

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<sup>1</sup> SRP's fiscal year 2006 audited financial statements, page 35.

<sup>2</sup> See further A.R.S. §§ 48-2465(B) and 40-302.

<sup>3</sup> See further A.R.S. § 48-2466(A)



conditions and the Applicant's bond rating at the time of the transaction. SRP's current bond ratings are AA by Standard and Poor's ("S&P") and Aa1 by Moody's Investors Service ("Moody's"). Moody's rating update, dated June 13, 2006, states that "SRP is the highest rated U.S. public power electric utility".

As of April 4, 2006, SRP had an unused financing authorization of \$296,654,710.<sup>4</sup> On July 13, 2006, SRP issued \$296 million of its Salt River Project electric system revenue bonds, 2006 Series A ("2006 Series A Bonds"), with a fixed interest rate of 5 percent and an average term for the series of 30 years. Staff's financial analysis presented below quantifies the pro forma effect of the 2006 Series A Bonds.

### **Refunding Revenue Bonds**

SRP requests authorization to issue \$1.3 billion in refunding revenue bonds. The proposed refunding revenue bonds would be secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, i.e., in the same manner as the revenue bonds.

Similar to the revenue bond sales, SRP plans to sell the refunding revenue bonds in several series subsequent to the date of Commission approval. Maturity dates for the refunding revenue bonds can not exceed fifty years. The amount, maturity and interest rate of each series depends upon capital market conditions and the Applicant's bond rating at the time of the transaction.

The purpose of authorizing the Applicant to issue refunding revenue bonds at this time is to facilitate expeditious refinancing of existing debt when future market conditions present opportunities to reduce debt service costs. Since the proceeds of refunding revenue bonds would be used to repay existing debt, issuing them would not result in additional outstanding debt.

Although SRP makes refunding decisions based on a number of criteria (such as interest rates on outstanding bonds, current market interest rates, the costs of funding an escrow, call provisions on refunding candidates, potential debt savings, etc), the Applicant's primary decision-making criterion for a refunding is the aggregate net present value savings that could be realized through the refunding as a percentage of the par amount of the bonds to be refunded. Historically, SRP has not refunded long-term debt unless the net present value savings are 7 percent or greater. For short-term debt, the Applicant considers that savings have to be a minimum of 3 percent.<sup>5</sup>

As of April 30, 2006, SRP had \$2,532,453,351 outstanding refunding revenue bonds authorizations.<sup>6</sup> Some of the refunding revenue bond authorizations restrict the issues that can be refunded, and for some bonds, there are no outstanding refunding authorizations.

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<sup>4</sup> SRP's application, Exhibit I.

<sup>5</sup> Ibid, page 5.

<sup>6</sup> Response to data request STF 1.1, Attachment A. Exhibit J – Page 1.

### **Financial Analysis**

Staff's analysis is illustrated in Schedule PMC-1. Column [A] reflects SRP's historical financial information for the fiscal year ended April 30, 2006.

Column [B] presents pro forma financial information that modifies Column [A] to include the 2006 Series A Bonds (described above) and to reflect the effect of the 1.2 billion revenue bonds proposed by the Applicant assuming a 4.35 percent annual interest rate and a 25-year amortization. These assumptions are based on current market conditions, as published by Value Line.<sup>7</sup>

Column [C] provides a stress test that modifies Column [A] to quantify the effect of the 1.2 billion revenue bonds proposed by SRP assuming a 6 percent annual interest rate (the highest interest rate paid by the Applicant in its currently outstanding bonds) and a 5-year amortization. Column [C] also includes the \$296 million 2006 Series A Bonds issuance.

The analysis shown in Schedule PMC-1 does not reflect any bond refunding. The proceeds of refunding revenue bonds would be used to repay existing debt. Since SRP applies as a primary condition for a decision to refund bonds that the refunding provide a positive net present value, issuing refunding revenue bonds would generally result in improved debt service coverage. The analysis also assumes immediate issuance of an amortizing loan of the full amount requested by the Applicant. SRP would be issuing serial bonds and would not issue the whole authorized amount immediately after Commission approval. Although differences in the timing and type of financing will result in outcomes different than those presented, Schedule PMC-1 provides a good basis for purposes of determining the appropriateness of granting the authorizations requested by SRP.

### **TIER and DSC**

Times interest earned ratio ("TIER") represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not mean that debt obligations cannot be met in the short term.

Debt service coverage ratio ("DSC") represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule PMC-1, Column [A] shows that for the fiscal year ended April 30, 2006, SRP had a 3.04 TIER and a 1.74 DSC. The pro forma TIER and DSC for SRP under the scenario

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<sup>7</sup> The Value Line Investment Survey; Selection and Opinion, dated September 29, 2006, page 911

described above for Column [B] are 1.99 and 1.40, respectively. These pro forma DSC results indicate that SRP would be able to meet all obligations, under this stringent test, with cash generated from operations. The pro forma TIER and DSC for SRP under the scenario described above for Column [C] are 1.85 and 1.00, respectively. The pro forma DSC results indicate that SRP would be able to meet all obligations under this stress test with cash generated from operations as long as the maturity is not less than 5 years.

### Capital Structure

At April 30, 2006, SRP's capital structure consisted of 2.1 percent short-term debt, 46.9 percent long-term debt, and 50.9 percent equity (Schedule PMC-1, Column [A]). SRP's financial statements reflect continued strong financial health. The Applicant's capital structure has strengthened, with common equity increasing from 41.8 percent of its capital structure in 2003, to 50.9 percent in 2006. Issuance of the proposed revenue bonds and recognition of the \$296 million July 2006 debt issuance would result in a capital structure composed of 2.1 percent short-term debt, 57.1 percent long-term debt and 40.8 percent equity (Schedule PMC-1, Column [B]).

### Engineering Analysis

The Staff Engineering Report is attached. Staff reviewed the material cost estimates of the new projects. Staff concludes that SRP's \$2,673,791,000 cost estimate for the proposed capital plan appears to be reasonable and appropriate.

### Compliance

There are no compliance issues with Salt River Project Agricultural Improvement and Power District.

### Conclusion and Recommendations

Staff concludes that the cost estimates in SRP's 2007-2012 capital plan are reasonable.

Staff concludes that SRP's issuance of revenue bonds not to exceed \$1,200,000,000 to fund its capital expenditures for fiscal years 2007-2012 and issuance of refunding revenue bonds not to exceed \$1,300,000,000 to refund existing revenue bonds is within SRP's organizational powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends that the Commission authorize SRP's request to issue revenue bonds not to exceed \$1,200,000,000 to fund its capital expenditures for fiscal years 2007-2012 and an expiration of any unused revenue bond issuance authorization on December 31, 2014.

Staff further recommends that the Commission authorize SRP's request to issue refunding revenue bonds not to exceed \$1,300,000,000 to refund existing revenue bonds.

Staff further recommends authorizing SRP to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Applicant file with Docket Control, as a compliance item in this docket, within 60 days of the execution of any financing transaction authorized herein; a copy of all notes and other documents memorializing the transaction and a written summary providing an overview of the transaction that includes, but is not limited to, the business rationale for the transaction, the terms and conditions of the transaction, and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time.

FINANCIAL ANALYSIS

		[A] Fiscal Year 2006		[B] Pro Forma		[C] Stress Test Pro Forma	
1	Operating Income	\$	382,268,000	\$	382,268,000	\$	382,268,000
2	Depreciation & Amort.		313,562,000		313,562,000		313,562,000
3	Income Tax Expense		0		0		0
4							
5	Interest Expense		125,834,000		192,197,645		206,763,364
6	Repayment of Principal		274,778,000		306,301,067		491,308,886
7							
8							
9	<b>TIER</b>						
10	[1+3] ÷ [5]		3.04		1.99		1.85
11	<b>DSC</b>						
12	[1+2+3] ÷ [5+6]		1.74		1.40		1.00
13							
14							
15							
16							
17							
18	Short-term Debt	\$131,346,000	2.1%	\$162,869,067	2.1%	\$347,876,886	4.4%
19							
20	Long-term Debt	\$2,893,017,000	46.9%	\$4,389,017,000	57.1%	\$4,389,017,000	55.7%
21							
22	Common Equity	\$3,140,862,000	50.9%	\$3,140,862,000	40.8%	\$3,140,862,000	39.9%
23							
24	Total Capital	\$6,165,225,000	100.0%	\$7,692,748,067	100.0%	\$7,877,755,886	100.0%
25							
26	[A]: Based on audited financial statements for the fiscal year ended April 30, 2006 .						
27	[B]: Column [A] inclusive of \$1.2 billion debt amortized for 25 years at 4.35% and issuance of the 2006 series A revenue bonds.						
28	[C]: Column [A] inclusive of \$1.2 billion debt amortized for 5 years at 6% and issuance of the 2006 series A revenue bonds.						



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**Via E-mail and FedEx**

September 14, 2006

**RECEIVED**

SEP 15 2006

Pedro M. Chaves, Utilities Division  
Maureen A. Scott, Esq., Senior Staff Counsel  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

**AZ CORP COMM**  
**Director Utilities**

**RE: Staff's First Set of Data Requests to Salt River Project Agricultural Improvement and Power District; Docket No. E-02217A-06-0489**

Dear Pedro and Maureen:

This letter and the attachment constitutes Salt River Project Agricultural Improvement and Power District's ("SRP") supplemental response to Staff's First Set of Data Requests in Docket No. E-02217A-06-0489, dated September 1, 2006 and received September 5, 2006.

**Response to STF 1.3:**

Enclosed as Attachment B is the requested affidavit of the public notice that was published in the Arizona Republic on September 8, 2006.

If you have any questions or need further information, please contact me at (602) 236-5536.

Sincerely,

A handwritten signature in black ink, appearing to read "Jessica Youle", written over a horizontal line.

Jessica J. Youle

JJY:jlb

Cc: Dean Yee  
Steve Hulet  
Barbara Bindenagel  
Kelly Barr  
Jana Brandt

# THE ARIZONA REPUBLIC

**PUBLIC NOTICE OF AN  
APPLICATION FOR AN ORDER  
AUTHORIZING THE  
ISSUANCE OF REVENUE  
BONDS AND REFUNDING  
REVENUE BONDS BY SRP**

Salt River Project Agricultural Improvement and Power District ("SRP") has filed an application with the Arizona Corporation Commission (the "Commission") for an order authorizing SRP to issue \$1,200,000,000.00 in revenue bonds and \$1,300,000,000.00 in refunding revenue bonds (the "Application"). The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and at SRP's offices in Tempe, Arizona. Intervention in the Commission's proceedings on the Application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission, which must be served upon SRP and which at a minimum, shall contain the following information:

1. The names, addresses, and Telephone number of the Proposed intervenor and any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the Application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to SRP.

The granting of Motions to Intervene shall be governed by A.A.C. R-14-3-105, except that all Motions to Intervene must be filed on or before the 15th day after this notice.

Published: September 8, 2006

STATE OF ARIZONA }  
COUNTY OF MARICOPA } SS.

Kelly Howard, being first duly sworn, upon oath deposes and says: That he is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

September 8, 2006

Sworn to before me this  
12<sup>TH</sup> day of  
September A.D. 2006



*Kelly Howard*

*Marilyn Greenwood*  
Notary Public

MEMORANDUM

TO: Pedro M. Chaves  
Public Utility Analyst II  
Utilities Division

FROM: Prem Bahl *Prem*  
Electric Utilities Engineer  
Utilities Division

THRU: Del Smith *DS*  
Engineering Supervisor  
Utilities Division

DATE: January 25, 2007

SUBJECT: SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER  
DISTRICT'S FINANCING APPLICATION. (DOCKET NO. E-02217A-06-  
0489)

Salt River Project Agricultural Improvement and Power District ("SRP" or "District") submitted an application to the Arizona Corporation Commission ("Commission") for authorizing the issuance of revenue bonds in an amount not to exceed \$1.2 billion, and refunding revenue bonds in an amount not to exceed \$1.3 billion. The purpose of the revenue bonds is to provide financing for SRP's 2007-2012 Capital Improvement Program ("Program") for the fiscal years 2007-2012. This will enable the District to provide affordable and reliable electric service to its customers.

Customer and Load Growth

As of April 30, 2006, the District provided electric power to 892,806 retail customers in its 2,900 square mile service territory in major populated sections of Maricopa County, as well as portions of Pinal and Gila County, where it serves mining load requirements. This accounted for 99.99% of SRP's total number of customers, which included 69 Electric Utilities/Wholesale customers. The number of residential customers was 809,235, which was approximately 90.6% of the retail customer group, whereas 72,598 commercial and small industrial customers accounted for 8.1% of that group. With 772,791 total customers in 2002, this reflects an average annual increase of 3.68% in customer growth in SRP's service territory over a four-year period.

Historically, the District's annual peak control area load grew from 5,427 MW in 1997 to 6,669 MW in 2005, an average annual increase of approximately 2.61%. In 2011, the District projects its annual peak control area load to increase to 7,712 MW, an average annual increase of approximately 2.46% over the 6 year period. The District's annual forecast update is currently underway and will incorporate the actual peak data from 2006, which was greater than forecasted



due to significantly higher summer temperatures. The new forecast will be available in late spring.

Ending 2006, SRP's transmission system (115 kV and above) consisted of approximately 1982 overhead circuit miles that are fully or partially owned by SRP. The 69 kV sub-transmission system consists of approximately 733 route miles of overhead and 6 miles of underground lines. The primary and secondary distribution circuit miles ending FY05/06 are approximately 5,585 miles for overhead and 20,936 miles for underground.

### **Existing and Future Generation Resources**

As of the end of April 2006, SRP's total generation resources were 8,107 MW. Additional purchases were made to meet 2006 peak, which was significantly above forecast. The District's total projected generation resources, including firm purchased power contracts, to meet the aforementioned peak load serving obligations, range from 7,604 MW in 2007 to 8,633 MW in 2012. These resources are in excess of the forecast net peak load in 2007-2012, providing an average annual reserve margin of 12%. This level of reserve margin represents an acceptable and reasonable level for planning that strikes an appropriate balance between economics and reliability.

### **Review of 2007-2012 Capital Improvement Program**

Staff has reviewed SRP's Capital Improvement Program for the fiscal years 2007-2012. In assessing this program, Staff utilized the following criteria.

- Does the Plan adequately address the needs of the projected customer and load growth in SRP's service territory?
- Do the capital expenditures on generation, transmission and distribution infrastructure upgrades and new additions appear appropriate and reasonable?

SRP is working in conjunction with Arizona Public Service Company ("APS") to improve the import and load serving capabilities in the valley load pocket, which affects both the utilities. Recently constructed and planned projects, as detailed below, appear to reflect the joint efforts of the two largest utilities in the state to achieve their stated goals of providing reliable and cost effective service to their customers.

- Since 2002, an increase in the Palo Verde East transmission system path rating from 4,750 MW to 6,970 MW has improved SRP's import share by about 1,220 MW.
- In 2003, completed the Palo Verde to Rudd 500 kV line was completed. Rated at 1,550 MW, this line significantly contributed to the increased valley import capability.

- In 2003, four 150 MVAR 230 kV shunt capacitor banks were installed at Kyrene and Ocotillo Substations, which have further improved valley import capability.
- In 2002, completed Kyrene expansion of 250 MW.
- In 2006, completed Santan Expansion of 825 MW.
- In 2003, SRP purchased the 575 MW gas fired combined cycle Desert Basin generation facility from Reliant Energy Desert Basin, LLC.
- A new South East Valley Substation and expansion of Browning Substation are planned for the future.

### **Projected Capital Expenditures**

In order to meet the future load growth, SRP's plans include adequate generation resources (based on the planned 12% reserve margin), including construction of Springerville #4 generating unit (to be completed by the end of 2009). In 2005, SRP's Board of Directors approved installing or acquiring renewable resources to the tune of 15% by 2025. This matches with the renewable resources goals for the jurisdictional utilities as recently approved by the Commission.

Staff has reviewed the technical studies submitted by SRP, showing impact of Springerville #4 on the interconnected transmission system in terms of receiving the full output of this unit. SRP is proposing significant transmission upgrades to the Coronado Transmission System to accommodate delivery of the output of Springerville #4. Some of the more significant upgrades include a new 500/345kV transformer at the Coronado end of the Springerville to Coronado 345kV transmission line, 50% series compensation on the Coronado to Silverking 500kV transmission line (half of the series compensation will be added at the Coronado Substation and half added at Silverking Substation for reliability and operational flexibility purposes), sub-synchronous resonance protection of the Coronado Generating Station, and a conductor upgrade of the Silverking to Goldfield 230kV transmission line. SRP is working with regional entities to review and approve the technical studies. Staff concurs with the results of this study and believes these transmission upgrades are reasonable and appropriate.

Total generation expenditures for the FY2007 through FY2012, amounting to \$1,059,514,000 appear to be of reasonable levels.

SRP is actively participating in the regional and sub-regional transmission planning forums such as Western Electricity Coordinating Council ("WECC"); Southwest Area Transmission System ("SWAT"); Southwest Transmission Expansion Planning ("STEP"); and Southeast Area Transmission Study ("SATS"). SRP may also participate in the 500 kV TransWest Express Project. APS is taking the lead on that project. This project is designed to

transmit 3,000 MW of Wyoming clean coal and wind generation from Wyoming to Phoenix metropolitan area. If this project comes to a pass, SRP's potential share could be 1,000 MW.

SRP is participating in the Central Arizona Transmission System ("CATS") studies conducted by a stakeholder group on a collaborative basis. CATS is looking at the transmission alternatives in Central Arizona area from a planning perspective to meet future load growth in a reliable manner. As a result of this work, SRP, APS, Santa Cruz Water and Power Districts ("SCW&P") Association, Tucson Electric Power ("TEP"), and Southwest Transmission Cooperative ("SWTC") have embarked upon the Pinal West – Southeast Valley/Browning Station 500 kV line, which was approved for construction by the Commission in August 2005. In-service dates for different segments of this project are slated to be 2008-2011. SRP's 500 kV line from Hassayampa-Pinal West, approved in the Commission Decision No. 67012, is scheduled to be completed in 2008. SRP is also a joint participant with APS in the Palo Verde-TS5, TS5-Raceway, and Raceway-Pinnacle Peak 500 kV projects.

To meet the recent and future continued growth in the southeast valley, SRP is studying the expansion of the southeast valley 230 kV transmission system. Additional transmission capacity between Browning Substation and other receiving stations, such as Coolidge, Thunderstone, RS-19 and RS-23 are being evaluated. Multiple receiving station 500/230 kV and 230/69 kV transformer additions are included in the 2007-2012 Program. Several 69 kV and above transmission elements, such as lines, circuit breakers and disconnect switches, are included for replacements and new additions at various substations. Staff believes that SRP's planned transmission projects in the FY2007-FY2012 Program are appropriate and total expenditures of \$321,917,000 associated with these projects appear to be of reasonable levels.

SRP's projected distribution capital expenditures are to be incurred for upgrading existing facilities (including underground cable replacement) and building new infrastructures to meet the customer load growth. Total Distribution expenditures of \$1,292,360,000 are earmarked for the 2007-2012 period. Staff finds that the projected distribution capital expenditures are reasonable and appropriate.

The following Table No. 1 provides a Summary of the total Capital Expenditure for SRP's Capital Improvement Program, which is \$2,673,791,000. SRP is requesting approval for only a portion of this total expenditure to the tune of \$1.2 billion. To meet the additional capital needs for the Capital Improvement Program, SRP plans to utilize its internal resources.

<b>Table No. 1 ~ Summary of SRP's Capital Expenditure (Dollars, 2007-2012)</b>	
Generation	1,059,514,000
Transmission	321,917,000
Distribution	1,292,360,000
<b>Total</b>	<b>2,673,791,000</b>

## **Conclusions**

Based on the aforementioned review of SRP's generation, transmission and distribution projects as included in its FY2007-FY2012 Capital Improvement Program, Staff believes that this Program and the projects identified are appropriate to meet the projected needs of SRP's new customers and ensure system reliability by upgrading existing electric facilities, replacing aged underground cables and adding new distribution facilities. Staff further concludes that the expenditure levels associated with this Program appear to be reasonable.